CANRON LIMITED ANNUAL REPORT 1972

File

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Annual Meeting:
The fifty-seventh annual meeting of shareholders will be held in Salon Saguenay, Queen Elizabeth Hotel, Montreal, Quebec, on Wednesday, April 25, 1973, at 11:00 a.m.

Head Office:
1121 Place Ville Marie,
Montreal 113, Que.

Stock Listings:
Common and Preferred shares — Montreal, Toronto and Vancouver Stock Exchanges.

Transfer Agents:
Montreal Trust Company, Montreal, Toronto, Halifax, Winnipeg, Vancouver.

Registrar:
The Royal Trust Company, Montreal, Toronto, Halifax, Winnipeg, Vancouver.

CANRON

INTERIM REPORT

SIX MONTHS ENDED JUNE 30, 1972

Canron Limited, 1 Place Ville Marie, Montreal 113, Quebec

CANRON LIMITED

To the Shareholders:

Net earnings of Canron Limited for the first half of 1972 amounted to $2,007,000 or 79 cents a share, compared with 69 cents in the corresponding six months of 1971. Sales totalled $90,726,000.

Net earnings for the second quarter of 1972 were $1,856,000 representing a 57% improvement over the second quarter of 1971. Sales amounted to $51,444,000 compared with $44,790,000 in the second quarter of last year.

The markets for iron, concrete and plastic pipe continue to receive strong support from numerous municipal water works projects and increased activity in residential construction. Potential work associated with a number of large commercial buildings now in the final planning stages should benefit the company's structural steel operations, although it will not have any significant impact on earnings before 1973. Labour disputes resulting in lockouts and picket lines have severely disrupted production schedules in the construction industry. Two large structural contracts that would have been completed by mid-year have now been rescheduled for completion during the third and fourth quarters.

A major up-turn in heavy machinery and equipment sales in the United States has resulted in improved performance of the company's manufacturing operations there. Capital expenditures of a similar nature, in Canada, have so far not materialized on any broad scale.

The volume of work on hand at June 30 has increased modestly since the beginning of the year. The present backlog of $72 million, however, has a more favourable potential for productivity improvements. The latest indications confirm our earlier prediction that total sales in 1972 will not likely reach the record level of last year, but net earnings should equal, or exceed, the 1971 results.

Montreal, Que.
July 27, 1972

H. J. Lang
Chairman and
Chief Executive Officer

Consolidated Financial Summary
Six Months Ended June 30
(in thousands of dollars)

STATEMENT OF EARNINGS

	2nd Quarter		6 months	
	1972	1971	**1972**	1971
Sales	**$51,444**	$44,790	**$90,726**	$87,698
Costs and expenses	**48,108**	42,525	**87,139**	84,489
	3,336	2,265	**3,587**	3,209
Income taxes	**1,480**	1,082	**1,580**	1,450
Net earnings	**$ 1,856**	$ 1,183	**$ 2,007**	$ 1,759
Per common share	**$0.74**	$0.47	**$0.79**	$0.69

SOURCE AND APPLICATION OF FUNDS

	1972	1971
Funds Provided:		
Net earnings	**$ 2,007**	$ 1,759
Depreciation and amortization	**2,554**	2,531
Other	**231**	—
	4,792	4,290
Funds Applied:		
Fixed assets additions (net)	**2,274**	1,849
Funded debt	**623**	1,055
Preferred shares redeemed	**30**	44
Dividends	**1,284**	1,284
	4,211	4,232
Working Capital—increase	**$ 581**	$ 58
Working Capital—June 30	**$25,045**	$23,902

Highlights

(in thousands of dollars — except per share statistics)

	1972	1971	Increase (Decrease)
Sales	**$199,420**	$205,248	(2.8%)
Net Earnings	**$ 5,351**	$ 4,220	26.8%
Capital Expenditures	**$ 4,762**	$ 2,877	65.5%
Depreciation	**$ 4,511**	$ 4,371	3.2%
Shareholders' Equity	**$ 43,612**	$ 40,942	6.5%
Bank Advances and Long-Term Debt	**$ 44,878**	$ 47,177	(4.9%)
Working Capital	**$ 25,776**	$ 24,464	5.4%
Earnings per Common Share	**$ 2.12**	$ 1.66	27.7%
Cash Flow per Common Share	**$ 4.06**	$ 3.52	15.3%
Dividends per Common Share	**$ 1.00**	$ 1.00	—
Book Value per Common Share	**$16.83**	$15.71	7.1%
Net Earnings as % of Sales	**2.7%**	2.1%	28.6%
Net Earnings as % of Common Shareholders' Equity	**12.6%**	10.6%	18.9%

Directors' Report to the Shareholders

For the second consecutive year we are pleased to report a substantial improvement in the company's operating and financial results. Net earnings of $2.12 per share represented an increase of 27 percent over the previous year and the return on shareholders' equity moved up to 12.6 percent from 10.6 percent in 1971. Sales of $199 million were down slightly from last year's record volume of $205 million which included a number of unusually large structural steel contracts. The value of orders received in 1972 exceeded shipments by $3 million and the year-end backlog of $72 million was at a satisfactory level.

Among the company's many products manufactured in Canada, cast iron and concrete pressure water pipe were the outstanding contributors to sales and earnings, and the outlook for 1973 for these products is encouraging. The Plastic Pipe Division recorded another year of profitable growth and should continue to maintain a prominent position in this rapidly expanding industry. Structural steel fabricating operations in eastern Canada performed well, but the western markets were severely limited; however, recent forecasts indicate an improvement in conditions as the current year progresses. The foundry operations on average produced satisfactory results and the outlook is reassuring. The depressed domestic markets for machinery and equipment adversely affected volume and profits in the Mechanical Division. The company's machinery manufacturing plant in the United States operated at a high level and ended the year with a healthy backlog of orders. The demand for railway track maintenance equipment was very good last year and we expect near capacity output in 1973.

The general outlook for the areas in which the company is most involved in 1973 is reasonably optimistic. Sales for 1973 are likely to exceed the previous record set in 1971. A more detailed review of operations and financial results is presented in other sections of this Annual Report.

The company's expansion in recent years has been mainly the result of foreign acquisitions and increased export business. $52 million of the $66 million increase in annual volume between 1965 and 1972 came from foreign operations, and exports have been $15 to $20 million in each of the last three years. This rather dramatic change in the marketing pattern does not indicate that the company has neglected opportunities for domestic growth. The anticipated improvement in economic conditions should encourage future expansion of Canadian operations.

In recent years capital expenditures have been made for modernization of production facilities and installation of environmental control equipment, and the amount spent has averaged less than the provision for depreciation. Capital expenditures budgeted at $6.5 million for 1973 will exceed depreciation. It is planned to spend $3.8 million for improved productivity and expansion, $2 million for modernization of existing plant and equipment and approximately $750 thousand on the continuing environmental protection program.

A total of $2.7 million was reinvested in the business after providing $4.5 million for depreciation and $4 million for income taxes, and a payment of $2.5 million in dividends to shareholders. Common share dividends declared during the year were at the same rate of 25 cents per quarter that has been in effect since 1966, and have averaged 62 percent of net earnings during that period. During the late 1960's when earnings were at depressed levels, the company relied heavily on debt to support the rapid increase in sales volume. In the last two years the increase in earnings from operations has enabled us to reduce bank loans and long term debt by $8.5 million. Profits this year increased to 2.7 percent of sales. This is an improvement from the depressed levels of 1970 and 1971, but cannot be considered completely satisfactory. It is hoped that the indicated economic recovery will provide opportunities to improve the return on the sales dollar.

It is gratifying to record that relations between the employees and the company continue to be amicable and cooperative. The year was free of strikes and other major labour problems. The Board would like to express its appreciation to all employees for their efforts in meeting the severe demands imposed by the highly competitive business atmosphere in the year under review.

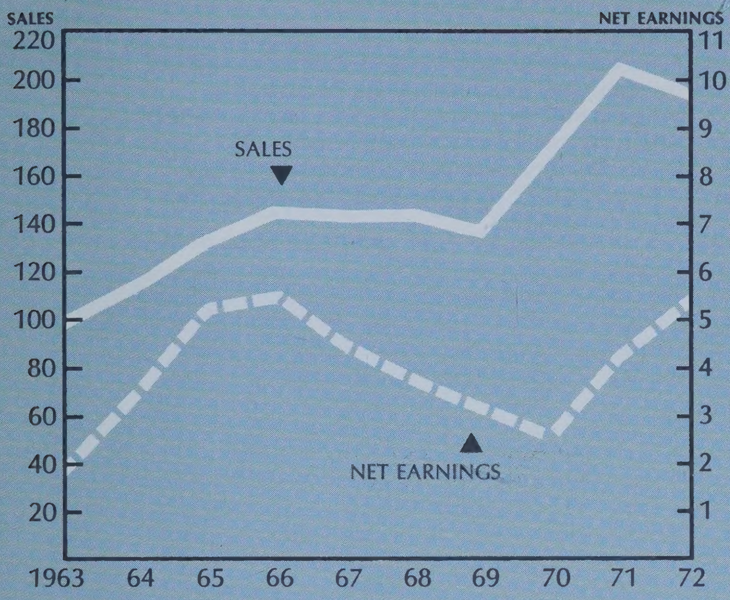
On behalf of the Board,

H.-J. Lang

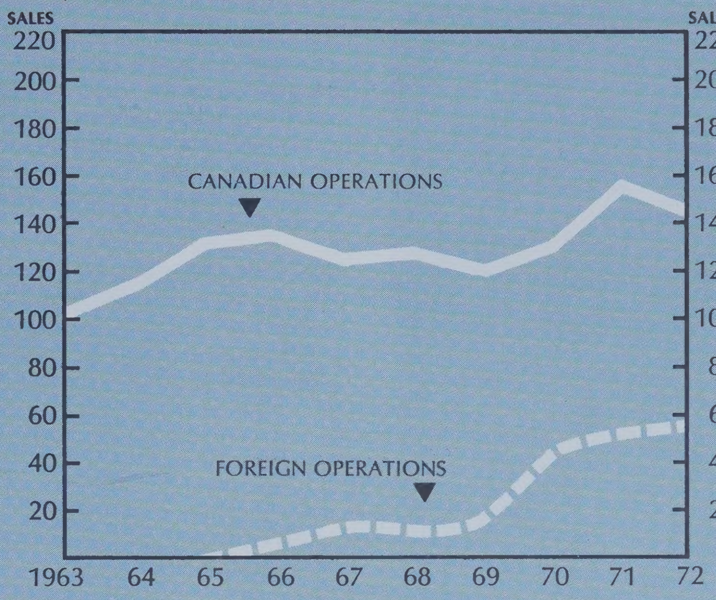
Chairman and Chief Executive Officer

Montreal, Que., March 30, 1973

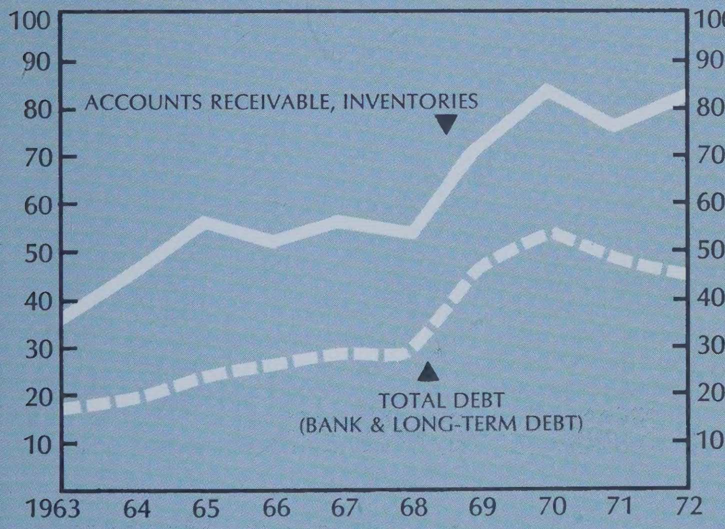
SALES AND NET EARNINGS
(in millions of dollars)



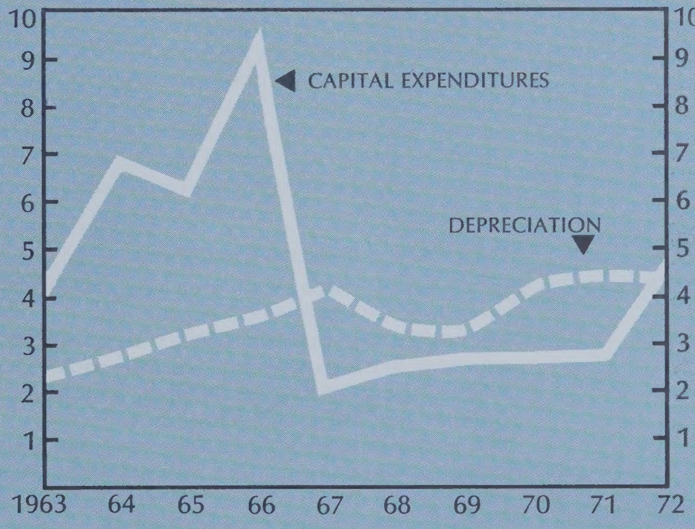
SALES BY CANADIAN AND FOREIGN OPERATIONS
(in millions of dollars)



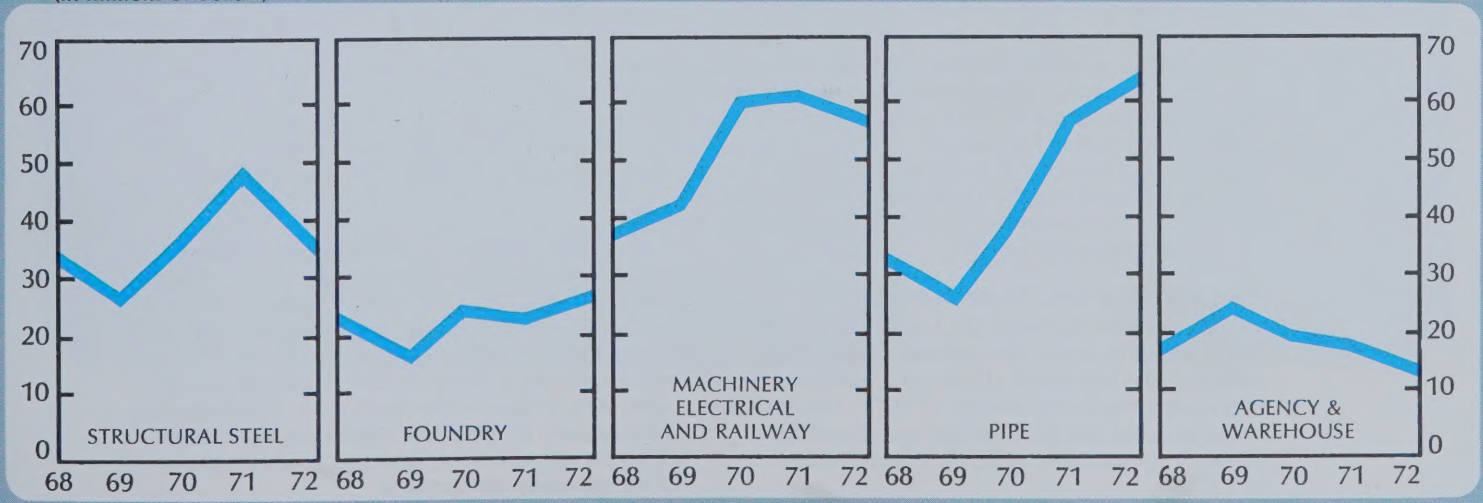
ACCOUNTS RECEIVABLE, INVENTORIES AND TOTAL DEBT
(in millions of dollars)



CAPITAL EXPENDITURES AND DEPRECIATION
(in millions of dollars)



SALES BY PRODUCT CLASSIFICATION
(in millions of dollars)



Finance

W. I. NILES
Vice-President, Finance

The comments which follow are intended to provide additional information on the major items contained in the company's consolidated financial statements and explanatory notes. For purpose of comparison, the 1971 amounts are shown in parentheses.

Sales $199,420,000 ($205,248,000)
Sales for 1972 were down $5.8 million from last year's record high of $205 million which included completion of some exceptionally large structural steel contracts carried over from prior years. Shipments of iron, concrete and plastic pipe, railway track maintenance equipment and foundry products were all at record levels in 1972.
Sales of Canadian made machinery, electrical products and fabricated structural steel were down for the year. U.S. manufactured machinery sales were up substantially.

Net Earnings $5,351,000 ($4,220,000)
Net earnings of $5.4 million were up 27% over last year and were at the highest level since 1966. As a percentage of sales, 1972 net earnings were 2.7%, up from 2.1% in the previous year, and slightly above the average of 2.6% for the years 1966 through 1972. Higher gross margins contributed materially to the improvement. The 1972 earnings benefited from the decrease of nearly $500,000 in interest expense resulting from a reduction of the average amount of borrowing and a drop in the average annual interest rate from 6.7% in 1971, to 6.4% for 1972.

Extraordinary Item Loss **$30,000** (Nil).
Extraordinary items are defined as "gains, losses and provisions for losses which are not typical of the normal business activities of the enterprise, are not expected to occur regularly over a period of years, and are not considered as recurring factors in the ordinary operations of the enterprise".
The company disposed of some plants and unused facilities. These transactions resulted in a net extraordinary loss of $30,000 for 1972 after giving effect to the tax consequences of each transaction.

Dividends
Common shareholders **$2,490,000** ($2,490,000).
Dividends on the 4¼% preferred shares amounted to $75,000 as against $79,000 in 1971. The company reduced the number of preferred shares outstanding through the purchase of 1,154 of these shares on the open market during the year.
The amount of dividends paid to common shareholders was unchanged. The dividend payments of $2.5 million represented 47% of 1972 net earnings compared with 60% for 1971.

Working Capital $25,776,000 ($24,464,000).
Working capital increased $1.3 million in the year 1972. Accounts receivable increased $4 million, reflecting the high level of sales of a number of products during the fourth quarter of 1972. Also included in the increase was $1.8 million from the extraordinary transactions, which will be collected in 1973.
Inventories were down by $600,000, mainly raw materials and work-in-process with a partial offset from reduced progress billings. Reduction in progress billings was related to the large volume of structural steel contracts completed in 1971.
Funds provided from operations totalled $10.8 million for 1972, an increase of $1.7 million over the previous year.

Fixed Assets
Fixed asset additions totalled $4.8 million in 1972 compared with $2.9 million in 1971. Two-thirds of the 1972 additions were made by the Canadian divisions, with the remaining third invested in the U.S., Switzerland and Australia. The net book value of disposals for the year was unusually high at $2.6 million while disposals in the previous year were nominal. The major disposals during 1972 were sale of the company's fractional horsepower electric motor business, plant and equipment at Napanee, Ontario, to Emerson Electric Canada Limited, and surplus real estate at Everett, Massachusetts to Boston Gas Company.
Depreciation in 1972 of $4.5 million was slightly less than the fixed asset additions. By comparison 1971 depreciation of $4.4 million was considerably higher than fixed asset additions for that year.

Other Assets $5,286,000 ($4,339,000)
Included are long-term accounts receivable, unamortized balance of patents and debenture discount. The principal account was long-term receivables of $3.4 million, which was $1.3 million higher than the previous year-end. These are mainly medium-term credits on export sales, the majority of which are protected by export credit insurance.

Long-Term Debt $21,187,000 ($24,554,000)
The company maintained a policy of purchasing its debentures on the open market at favourable prices and the 1972 sinking fund requirements of $975,000 were fully satisfied in this manner. All categories of long-term debt including mortgages and term bank loans decreased in accordance with the repayment terms of each loan.

Shareholders' Equity $43,612,000 ($40,942,000)
The increase of $2.7 million represents the balance of net earnings retained for the future growth of the company.
The book value of each common share was $16.83 at December 31, 1972, an increase of $1.12 per share for the year.
The book value of the outstanding preferred shares was reduced by $116,000 as a result of open market purchases during 1972 of 1,154 shares.

Other
A number of changes in key currency valuations have taken place since December 31, 1972. The major portion of the company's export sales from Canada are to the United States and other Western Hemisphere countries. It appears that the relative exchange rates of these countries will not change materially, at least in the short-term. Consequently, the company does not anticipate any significant effect on exports of its Canadian products as a result of the currency revaluations.

CANRON LIMITED and Subsidiary Companies

Consolidated Statement of Earnings

for the year ended December 31, 1972 (thousands of dollars)

	1972	1971
SALES (note 2)	$199,420	$205,248
COSTS AND EXPENSES		
Cost of sales	167,063	175,454
Selling and administrative	19,580	18,550
Interest	3,356	3,840
	189,999	197,844
Earnings before income taxes and extraordinary item	9,421	7,404
INCOME TAXES	4,040	3,184
EARNINGS BEFORE EXTRAORDINARY ITEM	5,381	4,220
EXTRAORDINARY ITEM (note 7)	(30)	—
NET EARNINGS FOR THE YEAR	$ 5,351	$ 4,220
EARNINGS PER COMMON SHARE		
Earnings before extraordinary item	$2.13	$1.66
Net earnings for the year	$2.12	$1.66

Consolidated Statement of Retained Earnings

for the year ended December 31, 1972 (thousands of dollars)

	1972	1971
BALANCE — BEGINNING OF YEAR	$30,578	$28,927
Net earnings for the year	5,351	4,220
	35,929	33,147
Dividends —		
On 4¼ % preferred shares	75	79
On common shares	2,490	2,490
	2,565	2,569
BALANCE — END OF YEAR	$33,364	$30,578

See accompanying notes on pages 9 and 10.

Consolidated Balance Sheet

as at December 31, 1972
(thousands of dollars)

Assets	**1972**	1971
CURRENT ASSETS		
Cash	**$ 869**	$ 1,354
Accounts receivable	**42,491**	38,518
Inventories (note 3)	**36,942**	37,590
Prepaid expenses	**818**	715
TOTAL CURRENT ASSETS	**81,120**	78,177
FIXED ASSETS (note 4)		
Property, plant and equipment — at cost	**90,584**	90,160
Accumulated depreciation	**53,443**	50,667
	37,141	39,493
OTHER ASSETS		
Long-term accounts receivable	**3,387**	2,119
Patents — at cost, less amortization	**1,576**	1,863
Unamortized debenture discount	**323**	357
	5,286	4,339
	$123,547	$122,009

SIGNED ON BEHALF OF THE BOARD

H. J. Lang, Director

M. W. Mackenzie, Director

Liabilities	1972	1971
CURRENT LIABILITIES		
Bank advances	$ 20,145	$ 19,772
Accounts payable and accrued liabilities	26,144	26,585
Dividends	641	642
Income taxes — current	1,310	681
— deferred relating to contracts	3,558	3,182
Long-term debt maturing within one year (note 5)	3,546	2,851
TOTAL CURRENT LIABILITIES	55,344	53,713
DEFERRED INCOME TAXES	3,404	2,800
LONG-TERM DEBT (note 5)	21,187	24,554
Shareholders' Equity		
PREFERRED SHARES (note 6)		
Authorized — 100,000 preferred shares of $100 par value		
Issued and fully paid — 17,094 — 4¼% cumulative redeemable preferred shares 1956 series	1,709	1,825
COMMON SHARES		
Authorized — 6,000,000 common shares of no par value		
Issued and fully paid — 2,489,622 common shares	8,539	8,539
RETAINED EARNINGS	33,364	30,578
	43,612	40,942
	$123,547	$122,009

See accompanying notes on pages 9 and 10.

Consolidated Statement of Source and Use of Funds

for the year ended December 31, 1972
(thousands of dollars)

	1972	1971
SOURCE OF FUNDS		
Net earnings for the year	$ 5,351	$ 4,220
Depreciation and amortization	4,832	4,639
Deferred income taxes	604	287
Provided from operations	10,787	9,146
USE OF FUNDS		
Fixed assets — additions	4,762	2,877
— disposals	(2,603)	—
Decrease in long-term debt	3,367	2,851
Dividends	2,565	2,569
Increase in long-term accounts receivable	1,268	71
Other	116	109
	9,475	8,477
INCREASE IN WORKING CAPITAL	1,312	669
WORKING CAPITAL — BEGINNING OF YEAR	24,464	23,795
WORKING CAPITAL — END OF YEAR	$25,776	$24,464

See accompanying notes on pages 9 and 10.

Notes to Consolidated Financial Statements

for the year ended December 31, 1972

1. PRINCIPLES OF CONSOLIDATION

(a) The consolidated financial statements include the accounts of all subsidiaries.

(b) The accounts of foreign subsidiaries have been translated from other currencies as follows: Current assets and liabilities at rates of exchange at the balance sheet date; long-term assets and liabilities and shareholders' equity at rates of exchange applicable at the time of acquisition or when the debt was incurred; income and expenses other than depreciation and amortization at the average rates of exchange during the year.

2. PRODUCT CLASSIFICATION

Sales are classified as follows:

	1972	1971
Structural steel	**20%**	26%
Foundry	**13%**	11%
Machinery, electrical and railway	**29%**	30%
Pipe	**31%**	27%
Agency and warehouse	**7%**	6%
	100%	100%

3. INVENTORIES

The inventories are valued at the lower of cost or net realizable value and comprise:

	(thousands of dollars) 1972	1971
Finished products	**$14,882**	$14,546
Work-in-process	**18,094**	21,610
Raw materials and supplies	**16,349**	18,541
	49,325	54,697
Less: Progress billings	**12,383**	17,107
	$36,942	$37,590

4. PROPERTY, PLANT AND EQUIPMENT

	(thousands of dollars) 1972			1971
	Cost	Accumulated Depreciation	Net	Net
Land	**$ 3,322**	**$ —**	**$ 3,322**	$ 4,037
Buildings	**29,013**	**16,558**	**12,455**	15,152
Machinery and equipment	**58,249**	**36,885**	**21,364**	20,304
	$90,584	**$53,443**	**$37,141**	$39,493

5. LONG-TERM DEBT

	(thousands of dollars) 1972	1971
Debentures 4½% to 6¾% sinking fund debentures due at various dates to 1987	**$17,025**	$18,013
Bank loans Term loans due in equal annual instalments to 1975	**4,836**	6,454
Mortgages 3% to 5¾% due at various dates to 1990	**2,872**	2,938
	$24,733	$27,405
Maturing within one year	**3,546**	2,851
Long-term	**21,187**	24,554
	$24,733	$27,405

Payments required in the next five years to meet long-term debt requirements and sinking fund provisions are: 1973 — $3,546; 1974 — $2,870; 1975 — $2,875; 1976 — $1,261; 1977 — $1,266.

Notes to Consolidated Financial Statements

for the year ended December 31, 1972

6. PREFERRED SHARES

During the year, preferred shares of a par value of $115,400 were redeemed. The retained earnings include an amount of $2,566,100 which has been set aside in accordance with the requirements of the Canada Corporations Act and equal to the par value of the preferred shares redeemed to date.

7. EXTRAORDINARY ITEM

The extraordinary item of $30,000 arises from the sale or closing of various plants and comprises a net loss of $523,000 less income tax reductions of $277,000 and non-taxable gains of $216,000.

8. RETIREMENT PLAN

Under various retirement plans of the company and certain subsidiaries there existed an unfunded past service pension liability estimated at $1,100,000. This liability is being funded by annual instalments over 25 years.

9. STATUTORY INFORMATION

	(thousands of dollars)	
	1972	1971
The following items are included in the consolidated statement of earnings:		
Depreciation	**$4,511**	$4,371
Amortization of		
— patents	**$ 287**	$ 235
— debenture discount	**$ 34**	$ 33
Interest on long-term debt	**$1,694**	$1,886
Remuneration of directors	**$ 31**	$ 27
Remuneration of officers	**$ 749**	$ 730
Number of directors and officers:		
Directors	**14**	14
Officers	**11**	12
Officers who are directors	**3**	3

Auditors' Report to the Shareholders

February 9, 1973

To the Shareholders of Canron Limited:

We have examined the consolidated balance sheet of Canron Limited and subsidiary companies as at December 31, 1972 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDonald, Currie & Co.
CHARTERED ACCOUNTANTS

Ten-Year Review

(in thousands of dollars — except per share statistics)

			Net Earnings			Per Common Share			
Year	Sales	Income Taxes	Amount	as % of Sales	as % of Common Shareholders' Equity	Book Value	Cash Flow	Net Earnings	Dividends
1972	**$199,420**	**$4,040**	**$5,351**	**2.7%**	**12.6%**	**$16.83**	**$4.06**	**$2.12**	**$1.00**
1971	205,248	3,184	4,220	2.1	10.6	15.71	3.52	1.66	1.00
1970	176,698	2,133	2,533	1.4	6.5	15.05	2.75	0.98	1.00
1969	138,088	1,985	3,003	2.2	7.8	15.07	2.58	1.17	1.00
1968	141,042	3,190	3,703	2.6	9.7	14.89	2.90	1.45	1.00
1967	142,011	4,230	4,402	3.1	11.8	14.47	3.46	1.72	1.00
1966	142,015	5,175	5,428	3.8	15.4	13.79	3.59	2.13	1.00
1965	133,867	5,830	5,183	3.9	16.4	12.58	3.41	2.06	0.58
1964	112,402	3,720	3,536	3.2	12.6	10.95	2.56	1.38	0.42
1963	100,279	1,700	1,897	1.9	7.0	10.04	1.65	0.70	0.33

Year	Capital Expen-ditures	Depreciation	Working Capital	Bank Advances	Long Term Debt	Preferred Share Dividends	Number of Shareholders	Number of Employees
1972	**$4,762**	**$4,511**	**$25,776**	**$20,145**	**$24,733**	**$75**	**4,301**	**5,655**
1971	2,877	4,371	24,464	19,772	27,405	79	4,687	6,114
1970	2,767	4,134	23,795	23,148	30,195	84	4,847	6,655
1969	2,801	3,217	24,307	21,111	25,249	86	4,926	5,197
1968	2,601	3,324	29,643	3,406	22,811	94	5,072	5,181
1967	2,109	4,108	31,790	4,711	23,459	108	5,318	5,224
1966	9,668	3,637	12,823	19,679	4,945	121	5,329	5,607
1965	6,096	3,292	16,288	16,819	5,592	144	4,430	5,261
1964	6,876	2,874	13,317	11,038	7,937	162	4,404	4,240
1963	4,003	2,290	16,514	8,678	8,782	182	5,062	4,210

Operations

C. S. MALONE
President and Chief Operating Officer

Canron's basic managerial policy is to decentralize decision-making powers by delegating authority and establishing responsibility for performance at the product manufacturing levels.

Operations are organized into twelve divisions, each a separate business headed by a General Manager. The General Manager is given the means and the incentive to meet laid down performance criteria and to achieve agreed upon goals. He is expected to adopt an entrepreneurial approach to the management of his division and is thus concerned with both short term earnings and long term viability and growth.

The divisions, with one exception, are arranged into three groups according to commonality of technology or markets. Each group is under the general direction of a Group Vice-President who has responsibility to ensure that the divisions reporting to him realize their full potential.

Effective coordination and control are exercised by corporate management through continuous review supported by a comprehensive information system.

Since Canron is a multi-product company with international operations, opportunities for risk taking involve no major dangers of exposure which could have a materially adverse effect on the company as a whole. It is recognized that with economic cycles and the difference between developing and mature businesses it is not practical to expect desired results in all divisions at all times.

If it is determined that the potential to achieve the established goal for return on investment does not exist or would require an inordinate amount of the company's resources, the decision to sell or close will be made. In 1972 Canron sold its fractional horsepower electric motor business and closed an operation which made hydraulic couplings.

While 1972 results were satisfactory in total, improved performance is planned in several areas. With better economic conditions being forecast and with enthusiastic and effective operating management, the prospects for profitable growth in 1973 are encouraging.

Pipe and Foundry Group

F. E. MILLER
Group Vice-President

PRESSURE PIPE. As Canada's leading manufacturer of pipe for water transmission and distribution, Canron was in a strong position to participate in the rising demand for water pipe products resulting from improved economic growth.

Our wide product range consisting of gray and ductile iron, prestressed and reinforced concrete pipe, augmented by a highly competent and aggressive organization enabled the division to set sales and earning records in 1972.

The strength in housing starts — more than 240,000 units — and the need to provide land adequately serviced by trunk watermains and sewers caused a rise in demand for pressure pipe and fittings of more than 15% over 1971. Demand was not concentrated in any one region of the country or in any one product although a greater than normal increase was evident in the Maritimes and in Quebec for iron pipe and fittings.

Some major contracts completed in 1972 involved projects utilizing reinforced "Hyprescon" concrete pipe. The scope of the projects are indicated by the division's shipments in Quebec of 8 miles of 30 inch, 36 inch and 42 inch diameter concrete pressure pipe to Sept Iles, 6 miles of 18 inch diameter to Ste. Scholastique, 7½ miles of 20 inch diameter to Plessisville, 4 miles of 36 inch diameter and over 1 mile of 84 inch diameter to the City of Montreal; and shipments in Ontario of 14 miles of 36 inch diameter to Kent County and the major portion of an order for 15 miles of 36 inch and 30 inch diameter to Lambton County. Export sales were relatively unchanged from 1971 and remain at a satisfactory level.

42 inch diameter concrete pressure pipe installation for Ontario Water Resources Commission.

Ingot moulds ready for truck shipment to a primary steel producer.

The concrete pipe plants' equipment was converted to increase pipe lengths to 24 feet in diameters up to 36 inches. At the Toronto iron pipe plant equipment was installed to preheat the metal charge up to 1600° F. before it enters the electric furnaces, increase melting capacity, improve working conditions and safety, and reduce air pollution by burning of the oil contaminants.

Continued economic momentum, a healthy backlog of orders and a strong market position indicate another satisfactory year in 1973.

PLASTIC PIPE. The plastic pipe business continues to show dramatic growth as the uses for plastics expand. The recovery in residential and commercial building and the broader acceptance of plastics for construction uses by architects and regulatory authorities were major contributing factors in this growth.

The division achieved better than the industry growth of over 20% as the product range was expanded and new markets and uses were developed.

To keep pace in a rapidly expanding industry many changes in organization and facilities were carried out. Warehousing and distribution have been reorganized, production units have been added and research and development efforts have been strengthened.

1973 should see a continuation of past trends and the division looks forward to another rewarding year.

WARREN PIPE. Warren Pipe, located in Phillipsburg, New Jersey, manufactures gray and ductile iron pressure pipe as well as soil pipe used in water and waste systems for buildings. While the eastern United States market for Warren products was reasonable in 1972 and order bookings were satisfactory, results were below expectations. This was caused mainly by complicated metallurgical and production difficulties which are being overcome.

Order backlog at year-end was substantially above that of a year ago and indications are that Warren Pipe will realize acceptable profit margins in 1973.

FOUNDRY. The buoyant year experienced by the basic steel and railway industries resulted in increased output of ingot moulds and brakeshoes.

Sales of other products such as street castings, hydrants and friction blocks have also been very strong and new markets have been developed. The effort to become a supplier of iron castings for the U.S. railway industry was successful.

PVC plastic pipe ducting used for installation of power and communication cables.

12 inch diameter iron pressure pipe installation for Parkway Finch Industrial Park at Don Mills, Ontario.

On the other hand, with the mining and ore refining industry in a slack period, sales of mine supplies and equipment from our Wabi Iron Works at New Liskeard, Ontario, fell off considerably.

The cast iron Alloy Foundry in Hamilton has installed automatic moulding equipment which will greatly increase output and bring down labour costs. Short runs of ductile castings for ball valves required for large pipelines have been successfully produced and could become a major product line.

General advancement in the Ingot Mould Foundry in both foundry practice and metallurgical control has greatly improved quality, costs, and productivity.

Air pollution control equipment has been installed at all foundries. In 1973 the division will turn its attention to improving the environment and working conditions inside the foundries. Water pollution control is also receiving careful attention.

The continuing disappearance of marginal foundries in Canada and the U.S. which are unable to meet pollution standards enhances the potential of the company's facilities to benefit from increased production capacity. The outlook is for progressively better performance.

Structural and Mechanical Group

W. S. CULLENS
Group Vice-President

EASTERN STRUCTURAL. Eastern Structural Division operated at close to capacity in 1972, although conditions in the industry were depressed. Satisfactory results were obtained because of a relatively high order back-log carried over from 1971, an aggressive approach to the market and rigid control over costs and investment.

While low margins prevailed in the first half of the year the situation gradually improved and prices appeared to stabilize for work to be booked in 1973. An increase in volume commencing in the second quarter is anticipated.

Among contracts of special interest completed during 1972 were the 6,000 tons of steel fabricated for the new Convention Centre in Niagara Falls, N.Y., 1,800 tons for the Highland Creek bridge, Ontario, 1,300 tons for a power station in Botswana, Africa, and 12,000 tons for the Iron Ore Company in Labrador City. Large contracts on hand at year end included 5,000 tons for the Mirabel Airport, 2,500 tons for the Gatineau bridge, Quebec, 3,130 tons for Toronto's Gateway Post Office and 6,000 tons for a power station in Coleson's Cove, N.B.

Backlog at the end of 1972 was again high — much of it stemming from Canron's participation in the huge Bruce Nuclear Generating Station project for Ontario Hydro.

Installation of a Grove gate valve for Interprovincial Pipe Line Company's 48 inch diameter pipe line loop from Edmonton to Superior, Wis.

In addition Canron will participate as a 50% partner in a joint venture which has been awarded the 45,000 ton structural steel contract for the Bank of Montreal building in Toronto, to be built by Olympia & York Developments Limited. Fabrication will start around mid-year with erection to be completed in late 1974 or early 1975.

WESTERN BRIDGE. As in the east, business conditions for the structural steel industry in the western provinces were at a low ebb resulting in under-utilized capacity and a very competitive

Mission highway bridge across the Fraser River, 50 miles upstream from Vancouver.

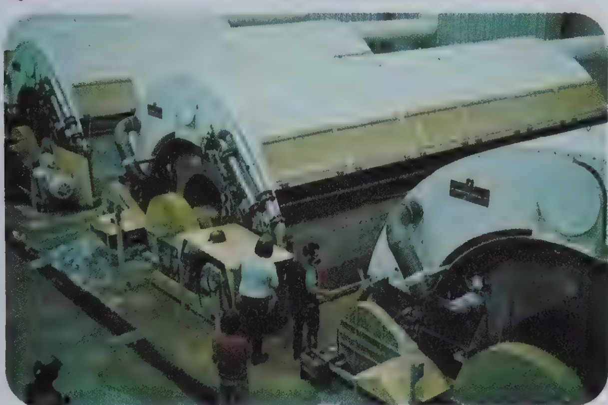
Construction of Bruce Nuclear Generating Station at Douglas Point, north of Kincardine, Ontario.

market. As a consequence, results for Western Bridge in 1972 were disappointing.

During the year, the division completed a two million dollar contract for fabrication and erection of the superstructure for the Mission bridge, east of Vancouver. A noteworthy achievement during construction was the hoisting of 200-ton sections from a barge to the top of 70-foot high piers. This is the heaviest single lift off water ever made in Canada.

The backlog entering 1973 was low; however the current outlook is better as several major jobs have since been obtained. These include barges for Northern Transportation ltd., and the Sundance power station in Alberta for Calgary Power. The

Line of 30-foot long bleach plant washers installed at Cariboo Pulp and Paper Company, Limited, Quesnel, B.C.



warehouse, galvanizing and small job sections of the division should continue at a reasonable level.

An area of continuing promise is the container crane market. Western Bridge sold an additional crane for the Port of Halifax and the initial crane in St. John, N.B. With the accelerated movement to containerized shipping and the division's proven expertise, the market for continuing business is good.

MECHANICAL. The Canadian demand for the range of custom machinery manufactured by the Mechanical Division did not pick up appreciably in 1972 and hence volume and earnings remained low. One notable exception was the market for oil and gas pipeline valves where sales showed a significant increase over previous years.

The number of major pipeline projects which are envisaged in the next several years will have a dramatic effect on the market for valves and the division's planning for a major participation in this market is well advanced. During the year 48 inch diameter Grove valves, the largest ever made in Canada, were supplied to Interprovincial Pipe Line Company.

Significant effort has been made during the year to expand in export markets for steel mill equipment and wood pulping equipment. Export sales are now a significant portion of total divisional sales.

The outlook for the capital goods market in Canada has been slow to react to the economic upturn, especially in the depressed pulp and paper industry. However, it is expected that improvement will be seen as 1973 progresses.

Machinery and Distribution Group

C. M. THOMSON
Group Vice-President

TAMPER. This division is responsible for the manufacture and sale of specialized railway track maintenance equipment under the "Tamper" name in North and South America and Australia, as well as in certain export markets. Manufacturing facilities are located at Columbia, S.C., Lachine, Que. and Melbourne, Australia. Contract maintenance work for railways is also a significant part of this business.

After relatively poor results in 1971, the economic recovery in the United States and renewed emphasis on upgrading railway track conditions resulted in a stronger market for the division's products. Sales and profits thus increased to more satisfactory levels. Canadian business was good and although the Australian market was slow, improvement is expected there. Export sales were above 1971 and some potential sales were deferred because of monetary problems in Argentina and Chile.

Development work continued on new and modified equipment. New models of the highly successful line of Electromatic tampers were introduced and the ballast equalizer was completely redesigned. A computerized method of analyzing and recording track conditions has been developed and has proven to be very successful in commercial use.

Tamper's achievements in maintaining a high level of research and development assures the division of leadership in its markets.

MATISA. Matisa Materiel Industriel S.A., based in Crissier, Switzerland, is the European counterpart of Tamper and serves not only Western Europe, but Eastern Europe, Africa, the Middle East, Japan and other Far Eastern countries.

Matisa B-133 Universal Tamper - Leveller - Liner for switches and plain track.

"Tamper" model STA Switch Electromatic Tamper.

Matisa's equipment performs the same functions as that of the "Tamper" line but, because of different conditions and operating requirements in many of its markets, is not identical in design. However, much technological similarity of the two product lines enables co-ordination of research and development programmes.

Equipment introduced in 1972 and scheduled for 1973 includes a new generation of switch and main-line tampers, as well as new ballast cleaners and measuring and analyzing cars. Customer acceptance has been excellent.

Heavy development and manufacturing costs associated with the new product line prevented the division from attaining the corporate financial goals; it is expected that this situation will continue through the early part of 1973 but will progressively improve during the year.

PACIFIC PRESS. 1972 was an excellent year for Pacific Press & Shear Company. Although the machine tool industry in the United States was not generally buoyant, Pacific had a very steady sales increase throughout the year and financial results were on target.

Orders were very high during the last half of the year and should continue through 1973. The increase in sales was due not only to improved economic conditions but also to customer acceptance of a new and wider range of machine tools and products developed over the past several years.

Of particular note is the J-Series Press Brake. These are lower tonnage, all-hydraulic presses ranging from 40 to 65 tons, designed specifically to challenge the dominance of the mechanical press in that segment of the market.

Other new products include a line of hydraulic plate squaring shears, with a shearing capacity of ¼ inch steel plate up to 12 feet long, which provide a more competitive machine tool in the lower size range. A new line of automatic backgauge equipment, trade-named "Select-A-Form" allows pre-determined positions to be automatically synchronized with the press operation, providing excellent labour saving opportunities. Both of these products were introduced at the International Machine Tool Show, in Chicago, in September.

Pacific enjoys a strong position in "forming type" machine tools and is continuing its development of new and improved products for the metal forming industry.

Recently Pacific completed installation of a new horizontal floor type milling machine at its Mount Carmel Plant at a cost of approximately $400,000. This 42-foot machine is one of the longest of its type in North America, and will greatly enhance Pacific's manufacturing capability.

Export sales continue to improve, especially in South America. Through Pacific's licensee in Belgium, sales in Europe increased.

The Robert Morse Corporation Limited has been appointed as the exclusive sales representative for Pacific in Canada.

RAILWAY & POWER. Railway & Power Engineering Corporation is a distributor and agent for over 125 companies and operates through seven warehouses and eleven sales offices across

Calvert bus duct manufactured by Railway & Power at Toronto.

"Pacific" model M Hydraulic Straightside Press.

Canada. The division serves a very wide range of Canadian industry; in fact there is hardly any one manufacturing industry in Canada which is not a potential customer and new products are being added constantly.

Sales in 1972 showed a healthy increase over the previous year and operating profit was satisfactory, although business with the petro-chemical, pulp and paper and aerospace industries is still below normal levels. As the economic upturn affects industries which were still recovering from the problems of previous years, the sales picture for Railway & Power is more promising and further improvement is expected in 1973.

Electrical

I. C. FERRIER
Vice-President

1972 can be classified as a period of consolidation and reorganization.

As mentioned in the introduction to this operating review, the assets of the fractional horsepower motor business were sold during the year to Emerson Electric Canada Limited. This sale included the plant and equipment at Napanee, Ontario. Considerable effort was spent on the re-arrangement of manufacturing facilities at Lachine, Que., in order to improve production flow and reduce costs.

100 KW generators for emergency stand-by power for essential services on Trans-Canada Highway, Montreal.

General business conditions were better except for two main customer industries, pulp and paper and mining. On balance there has been an improvement in volume for large AC motors and generators, while the market for medium AC motors continues to reflect heavy import competition. In general the order backlog is encouraging.

150 HP static converters used to control emergency stand-by power.

During the year the largest drive order in the division's history was successfully completed for a United Kingdom mini steel mill and included fifteen 800 HP motors, one 200 HP motor, together with sixteen power converters and associated controls.

A contract to supply prototype chopper control equipment for Montreal's planned subway expansion was received with delivery to be completed in 1973. It is expected that tenders for 400—450 cars will be called this year. Electrical Division supplied all traction motors and controls in the original Montreal Metro system completed in 1967.

Service operations continue to be satisfactory and show promising growth.

Personnel

P. M. DRAPER
Vice-President

During 1972 a total of twelve collective agreements were concluded, ten for two-year periods and two for three years. All were concluded without strikes or other work interruptions. Wages and employee benefits continued their strong upward trend with settlements ranging from 7% to 11% annually. Eleven collective agreements expire on various dates throughout 1973 and negotiations for their renewal have already begun. It is expected that the pattern of settlements will generally follow that of 1972.

In-plant training and development programmes were expanded during the year. A two-day seminar was conducted in which sixty-five members of senior management participated.

The joint responsibility of management and employees in accident prevention is acknowledged in all the company's collective agreements and their cooperative efforts have again succeeded in improving the safety record. The Eastern Structural Division won the Canadian Institute of Steel Construction award for safety in field erection of structural steel in Ontario.

607 employees are now receiving company pensions, 72 of whom retired during 1972. Payments under the long term disability plan are being made to 57 employees and benefits are being received by 33 widows of employees.

With the sale of the Napanee plant, arrangements were made to transfer and continue the benefits and other conditions of employment for approximately 200 former Canron employees.

Among the organizational changes in 1972 were the appointments of B. E. Jackson as General Manager of Western Bridge Division, S. R. Palmer as General Manager of Mechanical Division and R. G. Schwarz as General Manager of Matisa Materiel Industriel, S.A.

Divisions, Subsidiaries and Products

EASTERN STRUCTURAL DIVISION N. Dickinson, General Manager Main Office: 100 Disco Road, Rexdale, Ont. Offices: Lachine, Ottawa, Rexdale Plants: Ottawa, Rexdale WESTERN BRIDGE DIVISION B. E. Jackson, General Manager Main Office: 145 West First Avenue, Vancouver, B.C. Office & Plant: Vancouver	Structural Steel for Buildings & Bridges (fabrication & erection) Steel Joists Warehouse Steel Towers Hydraulic Gates Bulk Loading Terminals	Container Cranes Gantry Cranes Conveyor Systems Microwave Structures Tanks and Plate Work Shipping Containers Galvanizing
ELECTRICAL DIVISION I. C. Ferrier, General Manager Main Office: 160 St. Joseph Blvd., Lachine, Que. Offices: Lachine, Toronto Plant: Lachine	Alternators Electric Motors D.C. Machines (Motors & Generators) Traction Equipment	Industrial Drive Systems
FOUNDRY DIVISION J. M. Gandy, General Manager Main Office: 169 Eastern Ave., Toronto, Ont. Offices: Toronto, Hamilton, New Liskeard Plants: Hamilton (2), St. Thomas, Toronto, New Liskeard	Ingot Moulds Tunnel Liners Gray Iron Castings Brakeshoes Grinding Billets Mill Liners	Municipal Castings Alloy Iron Castings Mine Cars, Cages & Skips
MECHANICAL DIVISION S. R. Palmer, General Manager Main Office: 100 Disco Road, Rexdale, Ont. Offices: Lachine, Rexdale, Calgary, Edmonton, Vancouver Plant: Trois-Rivières	General Equipment Pulp & Paper Equipment	Rolling Mill Equipment Valves & Regulators
PIPE DIVISION J. G. Dunlop, General Manager Main Office: 10350 Ray Lawson Blvd., Ville d'Anjou, Que. Offices: Dartmouth, Saint John, Ville d'Anjou, Quebec City, Ottawa, Toronto, Vancouver Plants: Ville d'Anjou, Trois-Rivières, Toronto, Rexdale	Gray Iron Pipe Ductile Iron Pipe Concrete Pressure Pipe	Fittings Hydrants Sluice Gates
CANRON PLASTICS LIMITED R. A. St. Louis, General Manager Main Office: 9851 Ray Lawson Blvd., Ville d'Anjou, Que. Offices: Ville d'Anjou, Rexdale Plants: Berthierville, St. Jacques, Rexdale	Plastic Pipe (PVC, ABS and polyethylene)	Fittings

WARREN PIPE DIVISION W. C. Hamilton, Acting General Manager Main Office: 183 Sitgreaves St., Phillipsburg, N.J. Offices: Phillipsburg, Boston Plant: Phillipsburg	Gray Iron Pipe Ductile Iron Pipe Soil Pipe	Fittings
MATISA MATERIEL INDUSTRIEL S.A. R. Schwarz, General Manager Main Office: Arc-en-Ciel 2, Crissier, Switzerland Offices: Crissier, Switzerland; Bielefeld, West Germany; Palomba, Italy; Bedford, England Plants: Crissier, Renens, Switzerland; Palomba, Italy TAMPER J. K. Stewart, President Main Office: 2401 Edmund Road, West Columbia, S.C. 29169 Offices: Columbia, Lachine, Melbourne Plants: Columbia, Lachine, Melbourne	Fully Automatic Ballast Tampers Power Tamping Jacks Track Liners & Switches Switch Tampers Spike Pullers & Drivers Cross-tie Renewers Rail Bolters, Drills & Lubricators Snow Blowers Ballast Cleaners, Regulators Ramming Machines Track Laying & Lifting Equipment	Rail Welding & Reconditioning Equipment Track Recording Cars Push & Motor Cars Brush Cutters Rail Saws
PACIFIC PRESS & SHEAR COMPANY E. W. Pearson, President Main Office: 421 Pendleton Way, Oakland, Calif. 94621 Offices: Mount Carmel, Ill.; Oakland, Calif. Plant: Mount Carmel	Hydraulic Press Brakes Hydraulic Shears	Hydraulic Presses
RAILWAY & POWER ENGINEERING CORPORATION, LTD. R. J. Conrath, Vice-President and General Manager Main Office: 3745 St. James St. W., Montreal, Que. Offices: New Glasgow, Montreal, Trois-Rivières, Ottawa, Toronto, Hamilton, Sault Ste. Marie, Winnipeg, Edmonton, Calgary, Vancouver Warehouses: New Glasgow, Montreal, Toronto, Hamilton, Winnipeg, Edmonton, Vancouver	Rail, Truck, Bus & Aviation Products Stainless Steels Instrumentation & Electronic Products Hydraulic & Pneumatic Products Vibration Absorbers	Materials Handling Equipment Valves Plastics Trackwork & Related Supplies Air Moving & Conditioning Equipment

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